UNIT COST DETERMINATION

1. **Overview of methodology.** The unit cost methodology is a tool for projecting costs involved in delivering services. Determining costs of services is a requirement for recipients and subrecipients of Older Americans Act funding and certain other federal programs. Utilizing documented employee time and salary devoted to the delivery of specific services and prior year expense information, the methodology allocates the agency=s resources among its activities, both service and non-service related.

Employing the methodology encourages the agency to determine which activities benefit from its outlays, and to understand the components of their total service cost. Providers can use the methodology to automatically distribute resources among the services they administer, or can manually distribute resources when documentation indicates specifically how they are used.

Each provider offers a variety of services. In the methodology, these services are the end-goals of all provider activity and will act as receivers capturing all direct and indirect provider costs. The receivers assume all related direct costs, such as employee time and line-item support expenses, that are clearly incurred for the purpose of that program. Related indirect costs, which include activities such as administration, payroll, and budgeting will be allocated to the services based on an allocation statistic.

A. The unit costing methodology is based on two principles:

   **(1) Consistent treatment of like costs:** Consistently treating like costs and documenting direct staff time and line-item expenditures ensures that service costs will be consistent across the state for all of the service providers.

   Costs allocated in a particular manner must always be allocated in that fashion. Cost must be treated as either a direct or indirect cost in like circumstances. For example, administrative costs cannot be allocated both directly and indirectly to services. Once an allocation method is chosen (either direct or indirect), that same method must be used consistently each year.

   **(2) Documentation.** Supporting documentation must exist to directly allocate staff time, or budgeted line-item expenditures, to a specific service or services. Documentation includes paid invoices, vouchers, logs or journals which clearly identify the expenditure amount and service benefitted. For salary and wage costs, documentation will consist of a time study conducted bi-annually or time sheets or service logs that clearly reflect time spent delivering the various services. Since unit costs will be determined
on a prospective, or budget basis, documentation will consist of aforementioned invoices, etc. from the prior actual year to justify direct allocations of costs. The Department will require a supplemental Schedule of Functional Expenses by Service as part of the fiscal year audit. Entities not required to have a fiscal year audit performed may be asked to provide their general ledger financial statements to substantiate costs.

B. Cost Principles. These principles were derived from Office of Management and Budget (OMB) Circulars A-87 ACost Principles for State, Local, and Indian Tribal Governments@ and A-122 ACost Principles for Nonprofit Organizations@ regarding the allowability of costs for federal reimbursement. Determining unit costs within this framework fosters the:

(1) clear representation of costs;

(2) stopping the shifting of expenses from one program to another.

C. Full Cost. The full cost of a service includes salaries and expenses that can directly be associated with that service, as well as indirect expenses for activities that do not directly contribute to services but may benefit them indirectly, such as administrative oversight, accounting functions, utilities, etc. Once identified, the full cost of these services can then be broken down to detail the cost of delivering one service unit, which is the unit cost.

Allocated Costs. The provider determines what effort and materials are direct and indirect and with what program they are associated; bearing in mind the premium on consistency. Expenses will be attributed to a particular service through a determination of its nature, and an allocation of costs.

(1) Cost identified with a single service - is a direct cost 100% allocated to that particular service based on documentation, such as brochures printed for nutrition education.

(2) Cost benefitting multiple services - is a direct cost allocated to those services based on an equitable allocation basis such as percentage of time or percentage of wages when supported by documentation. An example is an in-home worker who performs Chore & Homemaker services. The salary would be split between the two services proportionate to the percentage of time spent in each service.

(3) Cost benefitting all services - is an indirect cost accumulated in a cost pool and allocated across all services based on an appropriate allocation statistic, such as office supplies or salaries for accounting staff.

(4) Cost unrelated to the delivery of service - is not allocated to the services. Staff software training or a brochure promoting a fund-raising
event are two examples of costs unrelated to service delivery.

(5) Unallowable costs- Costs for lobbying and fundraising activities are unallowable under state and federal grant awards to subrecipients and these costs must be accounted for separately. This includes salaries and other compensation to personnel for the percentage of time that they are involved in these activities, any directly associated costs, and a fair share of indirect supporting expenses.

Expenses directly incurred on behalf of a particular service, along with its fair share of indirect line-item expenditures and general administrative support costs, equals the total service cost which represents all activity that is relevant to the delivery of a particular service. Dividing that sum by the number of service units delivered in a year yields a unit cost that truly reflects the provider=s total expenses.

Services are activities relating to the delivery of client work. Activities that are allowable costs, but are not services, such as community outreach and training will be accounted for in the cost structure to ensure their being included as elements of billable hours. Elements of cost determined to be unallowable pursuant to reimbursement regulations, such as lobbying and fund-raising will be isolated as outlined in the attached spreadsheet example and not included as components of billable hours.

2. Specific Allocations Methods for Each Line Item
The following expense items are consistent with the line-item expenditures presented in the supplemental Functional Expense Template by Service which is an audit requirement of the Department. Expenses should be presented in the unit cost methodology and in the Functional Expense Template by Service using the same allocation basis.

If documentation exists supporting the allocation of part or all of the expense line-item or personnel costs directly to a service, these costs should be directly assigned.

Direct expenses include items that are easily associated with a particular service or services. For example, money spent for purchasing and delivering meals in the Meals on Wheels program is a direct expense identifiable to that service. Wages for an employee who performs Respite, Homemaker and Chore services can be allocated directly to these three services proportionate to the time spent in each service.

Indirect costs are those costs that have been incurred for common or joint objectives and that cannot be readily identified with a particular approved cost or service objective. These costs are then charged to providers using an approved
indirect cost rate. Once a cost is considered and treated as an indirect cost, that treatment must be applied consistently.

Allocation methodology: indirect costs that relate to a specific service or services should be allocated directly to that service. Allowable costs that cannot be related to a service or services should be allocated to the General Administration or Facilities cost pool.

(1) **Allocations Based on Percentages** - If service logs are not maintained, periodic time studies (at least once every two years) should be conducted to determine the percentage of time spent directly providing services for positions who perform multiple services or split time between administrative duties and service provision or direct oversight. Depending on the nature of the service provided, providers may not be able to identify a service unit with a specific measurement of time. In such cases, the employees devoted to this service should determine the percent of time devoted to that service in the year under study.

I. employee: service aide 1
II. services: Chore Services, Homemaker services
III. allocation: time is divided equally between the two services = 50%

(2) **Single Service Allocation.** Costs incurred in either the delivery or support of a particular service should be assigned to that service.

(3) **Multiple Service Allocation.** Expenses incurred on behalf of more than one service, but not all services, should be allocated directly to those services. If documentation is available, costs should be allocated in a manner similar to single service costs, otherwise the distribution of costs among the benefitting services is accomplished through employment of one of two ratios.

(4) **Personnel Cost Allocation Basis** - This spreadsheet must be filled out first. The employee name, position title, and salary of each employee must be entered, along with any projected increase or decrease from prior year salaries. An overall percentage can be automatically calculated for anticipated raises, or individual raises can be entered.

Whenever possible, providers should associate personnel expenditures with specific services by determining the number of hours the employee is actually available to work and estimating the percent of employee time devoted to individual activities. The units of service for the purposes of this spreadsheet are based on units of service produced in the prior year and are reflected as one-hour equivalent units of service. The percent of time devoted to services is estimated based on the percent of a year incurred in support of that service.
a. salary ratio - used to allocate fringe benefit costs, and space related expenses when square footage information is not available

b. percentage or statistical ratio - used to allocate line-item support costs

(5) Allocation Statistic. The sum of assigned costs make up the total direct costs for each service. Costs that cannot be assigned directly to a service will be grouped in a cost pool and allocated among all of the benefitting services based on a standard allocation statistic. Federal costing circulars and the costing model in this document, provide for particular allocation statistics for certain cost pools.

When allocating personnel expenses across services based on full time equivalents (FTE) employed with each service, FTEs serve as an allocation statistic. Another allocation statistic could be the number of purchases by service, used to assign purchasing costs to benefitting services.

Fringe Benefit Costs

(1) Benefit Expenditures. Employee fringe benefits include line-items such as health insurance, pension, worker=s compensation, etc.

(2) Allocation Methodology. Fringe benefits are allocated according to wages because fringe benefit costs generally follow salary and wage costs. Fringe benefits can be manually allocated if fringe costs per employee are known. Costs can then be allocated to services as the individual employee salary costs are allocated.

(3) Common Allocation Methodologies Include:

(a) Single service allocation methodology. Fringe benefits can be manually allocated directly to a service if fringe costs per employee are known and the employee directly spends their time in only one service.

If Pat=s activities are devoted solely to Respite Care, then Pat=s full fringe benefit costs ($5,000) should be allocated to that service.

Within the service network, most services are measured in increments of time rather than the number of clients. When the cost total is derived it can be divided by the total number of time increments to yield a per time increment cost, as well as divided by units to determine a per unit cost.
Dividing the service=s full cost by the number of service units delivered in one year yields the unit cost of each service. Employment of a standard methodology ensures that unit costs are comprised of the same factors throughout the network.

Example: Respite Care

$Direct costs = $41,000.00
$General administrative costs = $248.00
$Space costs = $20.00
$Support costs = $304.00
$MIS costs = $0.00

$Total costs = $41,572.00

$Unit cost = $41,572/1,800= $23.10

3. COST POOL ALLOCATION

a. Cost pool. In lieu of documentation linking an incurred expense with a particular program, the expenditure will be assigned to one of two cost pools, and allocated to the service areas based on an appropriate allocation statistic.

b. Cost Pool Categories. Once all cash and in-kind expenditures have been assigned to cost pools or directly assigned to services, the last step in calculating unit costs is the automatic allocation of the cost pools into service areas using separate and distinct allocation bases.

(1) Management and General (Administrative) Cost Pool. These guidelines apply to the preparation of the Statement of Functional Expenses, (see template) as well as to the unit cost methodology used in determining future contracted unit rates and actual unit costs.

Administrative Costs: According to the Office of Management and Budget, general administration and general expenses are those that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature which do not relate solely to any major function of the organization. This category shall also include its allocable share of fringe benefit costs, membership dues, corporate filing fees and other costs to maintain general
business operations. They include oversight, business management, general record keeping, budgeting, financing, and all management and administration except for direct conduct of program services or fund-raising activities.

Allocations to the general administrative cost pool are the salaries, travel, communications/postage, advertising, worker's compensation and general liability insurance, printing/office supplies, office equipment, professional/legal/audit fees, and miscellaneous expenses (filing fees, subscriptions and memberships related to DOEA services, etc.) that are usually associated with the following positions: the executive director, fiscal office staff, human resources staff, data processing office and all related supporting personnel for those offices.

**Personnel positions normally associated with Management & General activities (and their supporting costs) are not usually allocable to program services. However, if such staff spend a portion of their time directly supervising program services, their salaries and expenses should be allocated among those functions, proportionate to time spent on those activities. (As supported by a personnel activity report as described in OMB Circular A-122, Attachment B, paragraph 7., M.)

**(NOTE: Indirect cost is not synonymous with administrative costs.)**

(2) **Facilities & Maintenance Cost Pool.** Allocations to the facilities & Maintenance cost pool are the utilities, property insurance, maintenance & repair costs for building upkeep, fixtures, renovation or improvement costs, loan costs and interest expense for building repair, expansion or purchase, and building depreciation expenses.

c. **Space Costs**

(1) **Space-related Costs.** Space costs are support costs related to building occupancy or maintenance such as lease expenses, custodial supplies, maintenance agreements, utilities and janitorial wages.

Space costs are allocated to both the services and the other cost pools on the amount of occupied building space, or salary ratios based on the underlying assumption that space costs closely follow these cost factors. Building space charges can be valued through depreciation, or a building use allowance. Federal costing principles stipulate that use allowance computations cannot exceed two percent of the building acquisition cost, and may be used only for as long as the building has economic usefulness.

The computation of use allowances or depreciation will exclude: (1) The cost of land; (2) Any portion of the cost of buildings and equipment borne by or donated by the State or Federal Government irrespective of where
title was originally vested or where it presently resides; and (3) Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching requirement.

Charges for use allowances or depreciation must be supported by adequate property records and physical inventories

(2) Common Allocation Methodologies Include.

(a) **Single service allocation methodology.** Costs that can be applied directly to a single service should be allocated to that service $ See room 1 in the example below.

(b) **Multiple service allocation methodology.** Costs related to more than one service which cannot be easily quantified should be allocated to the benefitting services based on square footage occupied or on salary ratios allocated in the delivery of each service if square footage statistics are not available.

**Example: Salary Ratio**
Assume a building of three rooms that houses five programs incurs a total space cost of $100,000. That $100,000 needs to be allocated among the programs housed in the building. The cost should be distributed to the programs based on square footage occupied. The first two rooms will be allocated based on square footage occupied. The allocation of the third room will be explained below.

**Room One**
Room one accounts for 10% of the building space, and is devoted to the delivery of Alzheimer services. Consequently, the Alzheimer’s program will receive $10,000 of building costs.

\[ 10\% \times \$100,000 = \$10,000 \]

**Room Two**
Room two includes 40% of the building space, and is used for the provision of Congregate Meals services. The site includes the kitchen used for preparing the meals and the dining room used for serving them. Consequently, Congregate Meals services receive $40,000 of building costs.

\[ 40\% \times \$100,000 = \$40,000 \]

If it is impossible to determine the allocation of square footage among programs housed in a room, an alternative allocation statistic might be a salary and wage ratio. Room three will be allocated using such a
methodology.

**Room Three**
Room three is 50% of the building space, and houses Homemaker Services, Nutrition Counseling Services, and another OAA service. The salaries of the personnel in that room should be totaled.

$ \text{total salaries: } $50,000.

The total salary figure should be divided by the sub-total for each service. For example, if Nutrition Counseling Services incur a salary cost of $25,000, it incurs 50% of the room’s salary and wage costs, and receives 50% of the building space cost of room three.

$$50\% \times (50\% \times $100,000) = $25,000$$

Common area square footage may be excluded from the calculation, since the omission of common space does not impact the calculation and consequent percentage allocation. The cost associated with common areas should be allocated according to percentages determined above. Room one would receive 10% of that cost, room 2 would receive 40%, etc.

(c) **Space cost pool allocation methodology.** Costs that cannot be easily identified with a particular service or group of services should be allocated to the Space cost pool. The Space cost pool will be allocated to the services based on the amount of square footage occupied per service.

**Program Services Costs:** Costs associated with the activities that result in goods and services being distributed to customers that fulfill the purposes or mission for which the organization exists. Those services are the major purpose for and the major output of the organization and often related to several major programs. Expenses for program services should be reported by the kind of service function or group of functions. For example, a health and welfare organization may have programs for health and family services, research, disaster relief, among others. ¹

Personnel expenses that would be allocated directly to services would normally include the following positions:

Program Managers
Case Managers, Case Aides
I & R, Counseling, education, & Screening staff
In-home workers (Chore, Respite, Personal Care, Homemaker)

¹ AICPA Audit and Accounting guide Not-for-Profit Organizations, Program Services paragraph 13.30
Congregate & Home Delivered Meal staff and Nutrition staff
Home Health Workers
Recreation, Medication Management Health Promotion and Health Support Staff
Adult Day Care, and Respite staff
Any other position dedicated full time to providing a particular service or variety of services defined by the department, which equals 100% of their time.

The expenses associated with these positions should be directly allocated to services. If documentation doesn't exist to determine the portion of the expense applicable to that service, a percentage based on the amount of business the service represents (a distribution formula) should be used to allocate the expenses appropriately.

3. **UNALLOWABLE COSTS**

The costs of organized fund raising activities, while they may be necessary to the agency's operations, are unallowable, regardless of the purpose for which the funds will be used. Fund raising and investment activities shall be allocated an appropriate share of indirect costs.²

To be allowable, costs must:

(1) demonstrate reasonableness for and comparability to current market conditions necessary for the performance of the contract to which they are allocated;

(2) conform to any limitations or exclusions set forth in the Client Services Manual or in the contracts as to type or amount of cost items;

(3) be consistent with policies and procedures that apply uniformly to both federally financed and general revenue activities of the Department;

(4) be accorded consistent treatment;

(5) be determined in accordance with generally accepted accounting principles;

(6) for OAA funds, not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or prior funding period;

(7) for CCE funds, core service funds cannot be used to meet matching requirements for Area Agency on Aging administrative costs;

² OMB Circular A-87, Attachment B, paragraph 21.
and

(8) be adequately documented.

Expenditures prohibited from state or federal funds, as applicable, unless expressly provided by law include, but are not limited to:

- Congratulatory telegrams;
- Flowers and/or telephone condolences;
- Presentation of plaques for outstanding service;
- Entertainment for visiting dignitaries;
- Refreshments such as coffee and doughnuts;
- Decorative items (globe, statues, potted plants, picture frames, wall hangings, etc.);
- Greeting Cards (section 286.27, F.S.);
- Alcoholic beverages;
- Portable heaters and fans, refrigerators, stoves, microwave ovens, coffee pots, coffee mugs, etc.;
- Clocks for private offices;
- Meals, except those served to inmates and clients of State Institutions;
- Lobbying expenses

4. Cost Pool Allocation Basis- The basis for allocating general administrative costs to service areas is the per service modified total direct cost (MTDC). The underlying assumption is that administration costs follow the modified total costs applied to a particular activity.

MTDC consists of each service=s total cost minus capital expenditures and other distorting items of cost, such as pass-through funds, major subcontracts, etc. Line-item expenditures for which administrative expenditures are not incurred in proportion with the cost are considered to be distorting. Using total cost as the statistic in allocating the administrative cost pool insinuates that there is a reasonable correlation between total cost and administrative effort expended on its behalf. That is not always a reasonable assumption. Using MTDC, a provider can quantify that part of the cost not benefitting from administrative expenditures.

For example, service subcontract costs in excess of the first $25,000 are excluded. Including the $25,000 in the service=s MTDC total adds the appropriate weight to their administrative allocation. Even if the subcontract cost totaled $100,000 federal guidelines suggest that the administrative effort is not proportionately increased. OMB offers parameters to adhere to in discounting distorting costs, such as including the first $25,000 of subcontracts or using depreciation for all capital purchases rather than the acquisition cost. This example concentrates on
subcontracts since it may be the most prevalent distorting cost throughout the service network, and the Department has already suggested a depreciation schedule for capital purchases.

Allocating the total subcontract line-item of $40,000 to the Chore Service reflects a subcontract amount specific to that service. The adjustment subtracts that portion of the service subcontract that will be excluded from MTDC as an allocation base for the General Administration cost pool.

Example: Chore Services

$ subcontract line-item allocation: $40,000

$ service subtotal one: $40,500

$ service subcontract adjustment: ($15,000) - The subcontract allowance totals $25,000. Including only the allowable $25,000 Chore Service=s MTDC is reduced by $15,000.

$ new service subtotal: $25,500 (as shown in the MTDC row used to calculate the general administration allocation).

MTDC is calculated by subtracting from the per service total direct cost that portion of expenditures distorting the allocation.

The per service MTDC is divided by the total MTDC (total modified direct costs minus General Administration) to yield a percent of MTDC. That percentage is applied to the general administrative cost pool total to determine the per service allocation.

$ $25,500/$52,500 = 49%

$ 49% x 500 (General Admin. cost pool total)

$ General Admin. cost pool allocation = 245

In our example, since Chore Services incurs 100% of the provider=s service subcontract cost, the allowable 100% of the allowable $25,000 has been allocated to it, and the remaining $15,000 deducted from Chore Service=s MTDC total.

If the subcontract listed were not limited to the first $25,000, but was listed at the full cost of $40,000 and allocated entirely to Chore Services the effect would be inflationary on the allocation of general administrative costs to the service.

The allocation from the General Administration cost pool based on the full
cost of the subcontract would imply that Chore Services absorbs a sizable amount of general administrative costs. Chore Services may not be assuming much administrative time at all, but due to its high cost it would be allocated a large general administrative cost. In using MTDC as a base, costs that affect the subsequent allocations unfairly are identified and eliminated.

4. DETERMINATION OF UNIT COSTS

Spreading the cost pools completes the allocation of indirect costs. The service costs now include their direct costs plus a fair share of allocated indirect costs. The allocations have all been supported by reasonable and documented statistics.

After all of the cost pool allocations have been accomplished, cost totals for each service area should be calculated. Each service area's cost total is divided by the total number of units of service to yield cost per unit of service.

d. Other Line Item Expenses

The following expense items are consistent with the line-item expenditures presented in the supplemental Functional Expense Template by Service which is an audit requirement of the Department. Expenses should be presented in the unit cost methodology and in the Functional Expense Template by Service using the same allocation basis.

If documentation exists supporting the allocation of part or all of the expense line-item or personnel costs directly to a service, these costs should be directly assigned.

Indirect costs are those costs that have been incurred for common or joint objectives and that cannot be readily identified with a particular approved cost or service objective. These costs are then charged to providers using an approved indirect cost rate. Once a cost is considered and treated as an indirect cost, that treatment must be applied consistently.

Allocation methodology: indirect costs that relate directly to a specific service should be allocated directly to that service. Any remaining costs should be allocated to the General Administration cost pool.

Following are descriptions of the line item expenses presented in the spreadsheets:

(a) Travel. Travel costs include transportation costs (such as auto mileage,
taxi, airline, or bus ticket), lodging costs (such as hotel or motel), meals, and other related items (such as parking fees, tolls, and conference registration fees).

(b) Communications. Communications costs include a wide variety of telecommunications and postage charges which may be allocated to functions and services. Telephone, telegraph, pagers, cellular phones, teletype, WATTs lines, Centrex, and other telecommunications charges are included if they are attributable to the administration or delivery of services to the elderly.

(c) Postage. Postage costs include postage stamps, mail boxes, mail permits, delivery, and message services.

(d) Printing. Printing and reproduction costs are those costs associated with printing forms, reports, applications, manuals, and informational literature. These costs also include publication costs of print or media materials.

(e) Supplies. Supplies are those costs of materials which are tangible and consumable, such as office supplies and those used by staff in the provision of a service (i.e. homemaker supplies).

(f) Equipment. Equipment costs refer to the one year depreciation charge, annualized lease expense, or use allowance charge for any non-consumable, non-expendable property or capital good with an acquisition cost at or exceeding the Department specified capitalization level, and a useful life extending up to or beyond the Department determined limit. Examples of equipment commonly used in both the administration and delivery of services to the elderly include typewriters, printers, computers, copiers and vehicles.

(g) Utilities. Utility costs are those building related expenses which are not included in the lease or rent charges. They include electricity, gas, sewer, water, and garbage services.

(h) Professional fees. Legal, audit, and professional consultant fees are general administrative expenses, unless the consultant was performing a particular service.

(h) Building Space. Building space costs indicate the cost of space in privately or publicly owned buildings used for the delivery of services to the elderly. The total cost of space, whether in private or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same vicinity. If a subcontractor used space in a provider=s office the cost should be charged directly to the subcontractor.
Building expenses include rent or lease payments, utilities, maintenance and service agreement expenses, repairs (unless repairs increase the useful life of the building) and any other expenses related to the use of building space. Any occupied building space for which a space cost is charged should have a blueprint or floor plan showing occupants and programs.

(i) Other Costs. Other costs indicate the cost of any item not detailed in the above sections which are allowable and necessary to administer and provide services to the elderly. The total of this line item should not exceed 5% of the total management and general (administrative) cost category. If it does, a further breakdown of the line item expenses should be displayed. Examples of these costs are: subscriptions for periodicals, vehicle operating costs such as gas and tires, and memberships.

(2) Allocation Methodology. All travel and related expenses documented in the form of paid invoices, logs, etc., that can be associated with the personnel either performing or directly overseeing services should be directly allocated to the service or services. If these expenses are associated with General administrative positions, or documentation is not available to determine how the expenses should be allocated, the expenses should be allocated to the Management & General (Administrative) cost pool. The cost pool is allocated according to staff time because employee support costs generally parallel the amount of staff time spent in a particular activity.

Equipment costs are valued through use allowance charges or depreciation schedules.

(3) Common Allocation Methodologies Include:

(a) Single service allocation methodology. Support costs incurred in the delivery of a particular service should be assigned to that service.

   If a particular service incurs the entire printing expense of $10,000, or the computer and printer of an employee is devoted to one program those costs should be applied entirely to the service.

(b) Multiple service allocation methodology. Support costs incurred in support of more than one identifiable service should be allocated directly to those services based on existing documentation. Costs can be allocated based on a time ratio comparing their per service percentages of the organization's total staff time. Once the percentages are determined, the ratios are employed to distribute the support costs among the relevant services.

   Example: Time Ratio
Assume a provider's employee incurs $10,000 in travel costs in support of three services. There is no documentation available that identifies this cost to any of the three services, but it clearly benefits all three services. Therefore, the services must bear the expense via a time ratio methodology. The services in our example will be Adult Day Health Care, Personal Care, and Case Management. The total staff-time compared against the total agency available staff-time associated with each service is computed and used to create ratios.

**Per service staff time:**

- $Case Management=s percent of employee time: 22.89%$
- $Adult Day Health Care=s percent of employee time: 6.03%$
- $Personal Care=s percent of employee time: 4.24%$

**Percent of that time:**

- $Case Management accounts for 69.03% of the hours$
- $Adult Day Health Care accounts for 18.18% of the hours; and$
- $Personal Care accounts for 12.79%.$

Based on these per service staff-time percentages the ratios would allocate 69.03% of the costs to Case Management, 18.18% to Adult Day Health Care, and the remaining 12.79% to Personal Care.

- $69.03%*$10,000 = $6,903 to Case Management$
- $18.18%*$10,000 = $1,818 to Adult Day Health Care$
- $12.79%*$10,000 = $1,279 to Personal Care.$

6. **In-kind Support**

1. **Valuation of In-Kind Support.** In-kind support represents the value of the service or item the provider is receiving. This support is separated in the costing model and isolated. Segregating this support allows the provider to isolate those potential costs they would have to pay should the in-kind assistance disappear, and what would be the consequent indirect costs.

In-kind support costs are the cost to the provider of soliciting and developing in-kind assistance. This cost is an allowable agency cost and should be included in the costing model under the service for which the effort is expended or the General Administrative cost pool if a specific service cannot be
identified.

2. Personnel. In-kind personnel support includes personnel assigned to work as staff of the provider organization who are either not paid or are subsidized from a non-agency funding source.

Valuation: The value of donated time equals the amount of time donated for service times the comparable hourly rate of compensation. Rates should be consistent with regular rates paid for similar work performed within the organization or in the labor market. In-kind support is an unallowable cost under federal programs, and cannot be included in the billing rates. The value of this support can be included as matching funds on federal programs.

3. Fringe Benefits. In-kind fringe benefit support associated with the salary and wage charges incurred through volunteer work, or staff funded through other sources.

Valuation: Fringe benefits for volunteer positions should be calculated by comparing the fringe benefits for paid positions of a similar nature within the agency, or by comparing with positions doing similar work in the labor market.

4. Travel. Travel support donated by individuals or agencies outside of the organization.

Valuation: Travel support should be valued and allocated in the same manner as non-volunteer travel costs.

5. Building Space. In-kind building space indicates donated space or space paid for by non-agency resources. If the building is donated, and the donor transfers title to the property, the value should be determined as if the property had been purchased at fair market price or at the assessed value of the property, whichever is less. Building use charge value should be calculated by either depreciation or a use allowance charge.

Valuation: Building space can be valued through depreciation or a use allowance. Federal principles stipulate use allowance computations cannot exceed two percent of the acquisition cost and may be used for as long as the building has economic usefulness.

6. Communications and Utilities. Communications and utilities expenses of the agency paid for by non-agency resources constitute in-kind support.

Valuation: The support should be valued at current market prices.

7. Printing and Supplies. Printing and supply expenses which are paid by non-agency resources make up in-kind support.
Valuation: The support should be valued at current market prices.

8. Service Meals. In-kind service meals are service meals donated by other agencies or paid for by non-agency resources.

Valuation: Donated meals/food should be valued at current market prices.

9. Service Subcontracts. Any services provided by another agency under a contract for which there is no cash cost to the provider.

Valuation: Service subcontracts should be valued at the fair market value of the services.

10. Other Costs. Other support includes other items of expenditure which have been donated or are being paid for by non-agency resources.

Valuation: The support should be valued at current market rates.

Below the cost per unit of service totals, the providers should enter information related to in-kind donations and volunteer support. This section is excluded from the total calculation to illustrate current costs of service with the net production that includes funded and non-funded effort, or included to show what the net effect would be if the in-kind support diminished and the provider had to fund those additional costs.

In Meals on Wheels, soliciting volunteer support enabled the provider to drive down the unit cost by $1.06. Providers can use this section to illustrate the value of their in-kind support in holding down costs while maximizing service production.
The numbers in this example may not be accurate. Time estimates affect the total direct costs. It should be understood that the time estimates employed in the example were developed for the purpose of this example, and may not represent actual time charges. The number of services employed in this example is limited compared to the number of services most providers offer. The result is that for this example, a mock budget over a smaller palette of services is represented. The consequence is that the cost estimates may be higher than they would be if costs were spread according to actual statistics.